

COPY

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION)
OF KNIGHTSTOWN MUNICIPAL)
WATER UTILITY FOR A NEW)
SCHEDULE OF RATES AND)
CHARGES.)

CAUSE NO. 43440-U

FILED

MAY 29 2008

INDIANA UTILITY
REGULATORY COMMISSION

REPORT OF

THE INDIANA OFFICE OF
UTILITY CONSUMER COUNSELOR

MAY 29, 2008

Respectfully Submitted by



Daniel M. Le Vay
Assistant Consumer Counselor

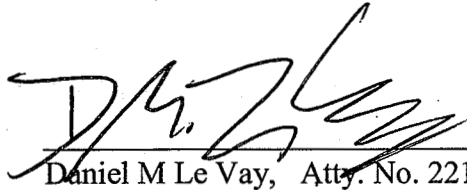
08 MAY 29 4:15 PM

Y-47

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic mail on May 29, 2008.

Scott A. Miller
H.J. Umbaugh & Associates
20 E. 91st. St.
P.O. Box 40458
Indianapolis, Indiana 46240



Daniel M Le Vay, Atty. No. 22184-49
Assistant Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

115 W. Washington St. Suite 1500 South

Indianapolis, IN 46204-2215

infomgt@oucc.in.gov

317/232-2494 – Phone

317/232-5923 – Facsimile

KNIGHTSTOWN MUNICIPAL WATER UTILITY

Cause No. 43440-U

REPORT OF THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Prepared By: Richard J. Corey, Utility Analyst II

Roger A. Pettijohn, Senior Utility Analyst

A. General Background

The Petitioner, Knightstown Municipal Water Utility ("Knightstown" or "the Utility") is a Class B Municipal Water Utility owned and governed by the Town of Knightstown and its Town Council. The treatment plant was installed in 1984, and is located at 7601 West U.S. Highway 40. It now serves a population of approximately 2,100.

Commission's jurisdiction

Knightstown is regulated by the Indiana Utility Regulatory Commission ("Commission") for the purpose of determining its rates and charges as provided by Indiana law.

Knightstown's Rate Structure

Knightstown charges a water rate with two decreasing rate blocks. The first 7,000 gallons of consumption per month are billed at the rate of \$3.09 per 1,000 gallons. All consumption over 7,000 gallons per month is billed at the rate of \$1.67 per 1,000 gallons. In addition to the volumetric rates, each customer is billed a monthly service charge based on meter size ranging from \$2.67 for a 5/8 inch meter to \$77.43 for an 8 inch meter. Each customer also pays a fire protection surcharge, which is also based on size of the meter and ranges from \$2.35 for a 5/8 inch meter to \$187.25 for an eight (8) inch meter. Knightstown's rates and charges were determined in its last rate case, Cause No. 39199-U, with the final order issued by the Commission on October 16, 1991.

Nature of Request

On February 19, 2008, Knightstown filed its petition requesting a 47.8% across the board increase to its monthly metered rates, minimum rates, fire lines/sprinklers rate and hydrant rental rate per month. Knightstown also requested an increase in its fire protection surcharge rates ranging from 84.3% to 84.7% depending on meter size. (The higher percentage increase for fire protection is due to the utility adding 12 hydrants while losing 82 metered customers.) Taking into account the fire protection surcharge, Knightstown in effect has applied for a 51.87% across the board increase to its rates.

Petitioner used a test year ending on April 30, 2007 and adjusted those amounts to arrive at a pro-forma amount reflecting future financial needs. The petition for increased rates was originally filed February 19, 2008. The IURC determined that filing to be complete and issued its notice of completion on February 29, 2008.

B. Water Utility Facilities

B-1. Treatment Plant and Source of Supply

Knightstown Water owns and operates a 500,000 gallon per day water treatment plant consisting of aeration and detention in preparation for the removal of iron and manganese by filtration. Knightstown adds chlorine to disinfect its water and fluoride to promote dental health. Three wells supply the plant with raw water. The capacity of the three wells ranges from 200 gallons per minute (gpm) to 500 gpm. Three high service pumps, each with a rated capacity of 375 gpm, together pump approximately 240,000 gallons per day (gpd) to about 1,020 customers.

B-2. Distribution and Storage

Knightstown Water has approximately 13.5 miles of water line and mains ranging in size from a diameter of two inches (2") to ten inches (10"). Knightstown has slightly more than 100 hydrants in service. Knightstown's storage consists of a 250,000 gallon tower, which was constructed in 1965, and a 210,000 gallon clear well at the plant that serves as a suction well for the high lift pumps. The clear well is located at the plant and is below ground level. Neither the well field nor the treatment plant has standby power.

C. Operations and Engineering

C-1. Engineering

The following discussion of Petitioner's pump, storage and stand-by power conditions are in reference to the Recommended Standards for Water Works (1997 edition) commonly referred to as the "Ten States Standards." By virtue of its 250,000 gallon elevated tank, the utility follows the "Ten States Standards" recommendation that the utility have the storage capacity to meet its average daily consumption of approximately 240,000 gpd. Thus, if its largest pumping unit, well or high lift pump is out of service for a day, Knightstown should still be able to meet its average daily consumption. However, with regard to auxiliary or standby power at key installations, such as its well field or treatment plant, Knightstown does not meet recommended engineering standards. In its capital improvement plans, Petitioner should consider budgeting and installing standby power generation at its treatment plant and well field.

C-2. Extensions and Replacements (E&R)

Petitioner has proposed a very moderate improvements program over the next five (5) years in the amount of \$30,000 per year. Most includes equipment and vehicles such as a backhoe, service truck and lawn mower. Only \$8,000 per year is earmarked for main improvements, replacement or looping. In addition, no treatment plant or pumping improvements are being proposed at this time. However, Petitioner should add the purchase of residential meters (discussed below) to its E&R program.

C-3. Water Loss

For purposes of this section, "water loss" refers to unaccounted for water in the utility's distribution system, which is based on the difference in volume between water pumped to the system and water sold to the customer. Since Petitioner's last rate case some seventeen years ago and continuing to today, Knightstown has been plagued by significant water loss in the low to mid 30 percent range. As part of a recommended water audit, water loss can be immediately reduced by subtracting backwash water (since in the case of Petitioner the master meter is downstream of the filters) and hydrant flushing from "pumped to distribution" figures. Taking into account the loss of water from both backwashing filters and flushing hydrants will more accurately reflect the true water loss figures. However, this procedure will only reduce water loss in the area of perhaps two (2) or three (3) percent. Further measures will have to be taken to reduce water loss to a more suitable 15% range.

Knightstown can calibrate plant master meter and other large meters in the system at the fairly inexpensive cost of \$200 to \$300 per meter plus repairs if needed. Large meter calibration may increase revenue and should be one of the first things considered to decrease water loss. Also, Petitioner should consider initiating a 15 year residential meter replacement program. With age, residential meters tend to under-register flow. It is generally considered more cost effective to replace old meters rather than to pull, test, repair and reinstall them.

While Knightstown has not identified any significant ongoing leaks, this does not mean that there are no leaks currently in the system. At times leaks do not surface but rather follow the course of least resistance before discharging to a sewer, manhole or other waterway. After other strategies to mitigate lost water have been explored, Knightstown may consider a leak detection survey. But, due to the expense and sometimes unreliable results of leak detection surveys, this should be considered only after other options have been exhausted. Finally, every six (6) months for a period of two (2) years after the final order in this case, Petitioner should report to the Commission and the OUCC its progress toward decreasing its water loss. The report should include the methods used to reduce water loss, the costs incurred, and the difference between the amount of water pumped and the amount sold. The first report should include calendar year 2008.

D. "Staleness" of Test Year

The Commission has sometimes discouraged the use of "stale" test year data. Generally, a test year is considered sufficiently recent if it ended no more than 180 days before the filing of Petitioner's case-in-chief. (e.g. 170 IAC 1-5-5(2)) Knightstown's petition in this cause was filed nine months and nineteen days after the end of its test year. Nonetheless, the OUCC considers Knightstown's test year as filed and adjusted to be representative of a typical twelve months of the utility's operation.

In response to the OUCC's data request, Petitioner represented that the delay in filing its case-in-chief was due to municipal elections being held during the preparation of this case. Since several former Town Council members were not re-elected, before leaving office the previous Town Council decided to delay its final decision regarding the amount and timing of a rate increase until after the new Town Council took office. Additional time was needed for the new Town Council members to become familiar with the details of the rate increase request and to debate its merits. The rate case was filed after the newly seated Town Council approved it.

E. Calculation of Revenue Increase Required

In its filing, Petitioner represented it is requesting a 47.8% increase across the board increase in rates. But Petitioner derived this increase using a different methodology than that used by the OUCC.

In calculating its Net Revenue Increase Required, Petitioner deducts *pro-forma* proposed Public Fire Protection Revenues and the total of all other *pro-forma* present revenues from Net Revenue Requirements to derive additional revenue required of \$93,698. This amount is then divided by the total of the *pro-forma* present revenues for Residential and Commercial customers only to get the 47.8% increase.

Had Petitioner used the OUCC's methodology it would add Petitioner's requested increase in Public Fire Protection resulting in a total requested revenue increase of \$120,397. Dividing this amount by the total *pro-forma* present revenues that will be affected by the across-the board increase (including Unmetered, Residential, Commercial, Private and Public Fire Protection, and Forfeited Discount Revenue), results in a requested revenue increase of 51.87%.

The OUCC's calculation recognizes that Residential, Commercial, Unmetered Sales, Public Fire Protection, Private Fire Protection and Forfeited Discounts revenues all will be affected by the across the board rate increase. Accordingly the *pro-forma* present value is deducted from Net Revenue Requirements to derive Net Revenue Increase Required. This results in the OUCC's Net Revenue Increase Requirement of \$104,991. A comparison of Petitioner's request and the OUCC computation can be found on Schedule 1.

F. Revenue Adjustment

F-1. Public Fire Protection

The Utility currently uses 103 fire hydrants for public fire protection. At the current yearly rate of \$384.25 Knightstown has the potential of generating \$39,578 in Public Fire Protection Revenue. However, in its filing, Petitioner has represented that it had Public Fire Protection revenue of only \$32,208. Accordingly, the OUCC has made a revenue adjustment to increase *pro-forma* present Public Fire Protection revenue by \$7,370 in order to reflect the amount the utility would have received had it collected the full revenue from each fire hydrant. (See OUCC Schedule 5.)

G. Expense Adjustments

The OUCC agrees with Petitioner's Expense Adjustment with respect to payroll expense, rate case expense, FICA tax expense, depreciation expense, and PERF expense. The OUCC agrees with the rate and methodology employed by Petitioner with respect to computing its Utility Receipts Tax (URT), but the OUCC calculates a different amount as a consequence of its own adjustments to *pro forma* operating revenues.

G-1. Health Insurance Expense

During the test year, Petitioner obtained health insurance for its employees from Anthem BCBS. After the end of the test year, Knightstown switched its health insurance provider to United Healthcare. The change resulted in a reduction in annual employee benefit cost from the reported test year amount of \$35,853 to \$33,384. This change is reflected in the OUCC's adjustment. (See OUCC Schedule 6, adjustment number 3.)

G-2. Materials and Supplies

During the OUCC's field audit, utility staff indicated they relied on the Uniform System of Accounts for a Class B Water Utility as promulgated by the National Association of Regulatory Utility Commissioners ("NARUC") in keeping the books of the utility. Staff stated they did not have a specific capitalization policy for purchases made by the Utility.

The Uniform System of Accounts for a Class B Water Utility provides that Utility Plant in Service shall include the original cost of utility plant that has an expected life in service of more than one year from the date of installation, and a cost in excess of \$400.

While performing its voucher review, OUCC staff determined that during the test year Petitioner had purchased two Hydrants for \$955 each. The cost of these hydrants was expensed to "Materials and Supplies Expense." Since the cost of each of these hydrants was above the \$400 capitalization cut off, the cost should be capitalized, not expensed. Therefore, the OUCC made an adjustment reducing "Materials and Supplies Expense" in the amount of \$1,910 (\$955 x 2). (See OUCC Schedule 6, Adjustment No. 9.)

G-3. Contractual Services – Other

The OUCC's audit determined that the Utility had participated in paying for the replacement of the existing flat roof for the town's utility building. This building is used by the town, the electric utility, and the wastewater utility as well as the water utility. The total cost of the roof replacement was \$4,500 of which the water utility paid 15%, or \$675, which was expensed to "Contractual Services – Other." As with the Hydrants referred to above, since this expenditure was above the \$400 cutoff for capitalization, an adjustment reducing "Contractual Services – Other" has been made in the amount of \$675. (See OUCC Schedule 6, Adjustment No. 9.)

G- 4. Maintenance Expense

In its proposed maintenance expense adjustment, Petitioner included the following maintenance expenses in its *pro-forma* revenue requirements: Tank Painting and greasing, Well Pumps, Well Cleaning, and Meter/Control Valve Pits. Due to lack of funds, Petitioner performed no maintenance on these items during the test year. The OUCC reviewed these expenses, including documentation of well pump and well cleaning expenses incurred outside the test year, and considers the expenses reasonable and likely to occur if appropriately funded. (See OUCC Schedule 6, Adjustment 8.)

Finally, as an annual Operations and Maintenance expense, Petitioner proposes the purchase of 200 meters a year at \$30.00 each or \$6,000 per year. Meter replacement programs are capital in nature. Knightstown should remove the cost from its operating expenses and include it in its E&R requirements. Therefore, the OUCC has removed the meter cost from the Maintenance Expense adjustment and placed it in Extensions and Replacements. Moreover, based on the expected useful life of the meters, a more appropriate schedule would be to replace 70 meters per year at \$50.00 each or \$3,500 per year, which constitutes a fifteen (15) year replacement program. Therefore, the OUCC recommends that Petitioner replace 70 meters per year at a cost of \$50.00 per meter. The cost of replacing 70 meters per year is reflected in OUCC Schedule 7, Extensions and Replacements, and not in Schedule 6, Adjustment 8.

H. OUCC's Calculation of Fire Protection Rates

As noted above, Knightstown recovers its fire protection costs for its 103 fire hydrants based on a calculation of equivalent connections to each customer. As a result of its adjustment, the OUCC has determined that the utility should receive an across the board increase of 43.84% for its Public Fire Protection Revenues. This increase results in *pro-forma* proposed Public Fire Protection revenue of \$56,930. Based on these total revenues, the OUCC's proposed fire protection rate per meter per month is computed as follows:

First the equivalent connection of each meter larger than a 5/8's inch meter is calculated:

Calculation of Equivalent Connections

Meter Size	Total Customers	Ratio to 5/8" Meter	Total Equivalent Connections
5/8"	998	1.0	998.0
3/4"	3	1.5	4.5
1"	8	2.5	20.0
1 1/2"	2	5.0	10.0
2"	8	8.0	64.0
3"	2	15.0	30.0
Totals	<u>1021</u>		<u>1,126.5</u>

The total pro-forma proposed fire protection revenue is divided by total equivalent connections to derive the annual charge per equivalent 5/8' connection:

<u>OUCC Proposed Total Fire Protection Revenue</u>	
Pro-forma proposed fire protection - Schedule 4	56,930
Divided by total equivalent connections	<u>1,126.5</u>
Proposed annual charge per equivalent connection	<u>\$50.54</u>
Proposed monthly charge per equivalent connection	<u>\$4.21</u>

Based on the above information, the individual meter size monthly fire protection rates are calculated as shown below:

<u>OUCC Proposed Monthly Public</u>				
<u>Fire Protection Charge</u>				
Meter Size	Equivalency Factor	Charge Per Equivalent Connection	Annual Charge Per Connection	Proposed Monthly Charge Per Connection
5/8"	1	\$50.64	\$50.54	\$4.21
3/4"	1.5	\$50.64	\$75.81	\$6.32
1"	2.5	\$50.64	\$126.34	\$10.53
1 1/4"	4	\$50.64	\$202.15	\$16.85
1 1/2"	5	\$50.64	\$252.68	\$21.06
2"	8	\$50.64	\$404.29	\$33.69
3"	15	\$50.64	\$758.05	\$63.17
4"	25	\$50.64	\$1,263.42	\$105.29
6"	50	\$50.64	\$2,526.84	\$210.57
8"	80	\$50.64	\$4,042.95	\$336.91

I. Field Hearing

A Field Hearing took place at Knightstown Community High School on Tuesday May 20th where three (3) customers spoke before the Commission. Among the items discussed, one customer, Mr. Dawes, referred to the utility's purchase of a backhoe, noted the expense, and questioned whether such an expense was justified by the utility's limited need for a backhoe. In response, Knightstown's Utility Manager, informed the OUCC that the backhoe was purchased in 2000 with 25% of the cost going to Water Company and the balance paid by the sewer, electric, and street departments since all departments share in its use. In addition, the water company repairs its own leaks and makes connections for new services through the use of its shared backhoe. The OUCC believes the backhoe to be a necessary and effective tool for utility maintenance and operation.

Mr. Dawes also noted the large number of meters (200) the utility purchased and questioned the need for so many meters. We believe Mr. Dawes concern may be addressed in part by the OUCC's recommendation to include in rates the replacement of only 70 meters per year. This would indicate a 15 year residential meter change-out program that should also lessen water loss.

Finally, as was noted by Public's witness Morris Lumen, the charge for fire protection had been changed more recently than the last rate case in 1991. This was the result of a thirty day filing made by the town which was submitted to the Commission on March 29, 2005. The filing requested that the cost of fire hydrants, then directly billed to, and paid by the town be collected by the rate payers through a fire protection surcharge. The fire protection surcharge was approved by the Commission on May 25, 2005.

J. Recommendations

1. Based on the above adjustments to Petitioner's test year revenues and expenses, the OUCC recommends a rate increase of 43.84% for the Knightstown Municipal Water Utility, or an increase in annual revenue of \$104,991. The rates for fire protections will be computed based on a per customer equivalent connection basis as described above.
2. Knightstown should be required to obtain pricing for and include planning of standby power for in its E&R the well field and treatment plant.
3. Knightstown should be required to initiate a meter change-out program in the amount and manner described in Section C-3 "Water Loss."
4. Knightstown should be required to address its Water Loss and report its progress to the Commission and the OUCC as described in Section C-3 "Water Loss."

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

**Comparison of Petitioner's and OUCC's
Revenue Requirements**

	Per Petitioner		Per OUCC	Sch Ref	OUCC More (Less)
	As Filed	OUCC Methodology			
Operating Expenses	\$266,499	\$ 266,499	\$ 255,444	4	\$ (11,055)
Taxes other than Income	12,161	12,161	11,895	4	\$ (266)
Extensions & Replacements	30,000	30,000	33,500	7	\$ 3,500
Debt Service	58,857	58,857	58,857	8	0
Total Revenue Requirements	367,517	367,517	359,697		(7,820)
Less: Interest Income	10,726	10,726	10,726	3	-
		-	-		-
Add: Other Expenses		-	-		-
Net Revenue Requirements	356,791	356,791	348,971		(7,820)
Less: Revenues at current rates subject to increase	(195,876)	(232,096)	(239,466)	4	\$ (7,370)
Other revenues at current rates	(68,528)	(5,983)	(5,983)	4	\$ -
Net Revenue Increase Required	92,387	118,712	103,522		(15,190)
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986	0.986		0.986
Recommended Increase	\$93,698	\$ 120,397	\$ 104,991		\$ (15,407)
Recommended Percentage Increase	47.84%	51.87%	43.84%		-8.03%

<u>Current Rate for 5,000 Gallons</u>	Proposed		OUCC More (Less)
	Petitioner	OUCC	
\$15.45	\$ 22.85	\$ 22.20	\$ (0.65)

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	<u>As Filed</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Operating Revenues			
Unmetered Sales	\$ -	\$ -	\$ -
Residential Sales	-	-	-
Commercial Sales	-	-	-
Public Fire Protection	26,325	7,370	(18,955)
Total Operating Revenues	<u>26,325</u>	<u>7,370</u>	<u>(18,955)</u>
O&M Expense			
Payroll Expense	9,598	9,598	-
Rate Case Expense	1,000	1,000	-
Insurance Expense	3,312	843	(2,469)
FICA Tax	734	734	-
Perf Expense	985	985	-
Maintenance Expense	23,300	17,300	(6,000)
Materials and Supplies	-	(1,910)	(1,910)
Contractual Services - Other		(675)	(675)
Depreciation Expense	4,717	4,717	-
Amortization Expense	-	-	-
Taxes Other than Income	762	496	(265)
Total Operating Expenses	<u>44,407</u>	<u>33,088</u>	<u>(11,320)</u>
Net Operating Income	<u>\$ (18,082)</u>	<u>\$ (25,718)</u>	<u>\$ (7,635)</u>

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

COMPARATIVE BALANCE SHEET

As of

	April 30, 2007	December 31, 2006
<u>ASSETS</u>		
Utility Plant:		
Utility Plant in Service	\$ 1,142,475	\$ 1,140,788
Construction Work in Progress		
Less: Accumulated Depreciation	(398,849)	(393,145)
Net Utility Plant in Service	<u>743,626</u>	<u>747,643</u>
Restricted Assets:		
Sinking Funds	30,736	30,736
Bond and Interest Fund	139,646	151,818
Meter Deposit Fund	7,843	7,420
Depreciation Fund	28,097	29,784
Debt Service Reserve Fund	56,651	56,651
Total Restricted Assets	<u>262,973</u>	<u>276,409</u>
Current Assets:		
Cash and Cash Equivalents	8,584	49,989
Accounts Receivable	26,514	25,193
Uncollectible Accounts	(3,381)	(3,381)
Total Current Assets	<u>31,717</u>	<u>71,801</u>
Deferred Debits:		
Bond Discount	5,127	5,127
Bond Issue Costs	15,643	15,643
Rate Increase Costs	8,556	8,556
Loss on Defeasement	28,219	28,219
Total Deferred Debits	<u>57,545</u>	<u>57,545</u>
 Total Assets	 <u>\$ 1,095,861</u>	 <u>\$ 1,153,398</u>

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

COMPARATIVE BALANCE SHEET

As of

	April 30, 2007	December 31, 2006
<u>LIABILITIES</u>		
Equity:		
Retained Earnings	\$ 687,481	\$ 724,417
Total Equity	<u>687,481</u>	<u>724,417</u>
Contributions in Aid of Construction	75,638	75,638
Long-term Debt:		
Bonds Payable - Series A	<u>324,000</u>	<u>345,000</u>
Total Long-term Debt	<u>324,000</u>	<u>345,000</u>
Current Liabilities:		
Customer Deposits	7,843	7,420
Accrued Taxes	<u>899</u>	<u>923</u>
Other Current Liabilities	<u>8,742</u>	<u>8,343</u>
Total Liabilities	<u>\$ 1,095,861</u>	<u>\$ 1,153,398</u>

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

COMPARATIVE INCOME STATEMENT
Twelve Months Ended

	April 30, 2007	December 31, 2006
Operating Revenues:		
Unmetered Sales	\$1,190	\$1,085
Residential Sales	159,040	156,468
Commercial Sales	36,836	37,409
Public Fire Protection	32,208	32,263
Private Fire Protection	770	770
Forfeited Discounts	2,052	2,099
Miscellaneous Service Revenues	5,983	5,723
Total Operating Revenues	<u>238,079</u>	<u>235,817</u>
Operating Expenses:		
Salaries and Wages - Employee	102,563	101,263
Salaries and Wages - Officers	1,949	1,949
Employee Pension and Benefits	8,304	8,163
Purchase Power	9,482	9,040
Chemicals	2,011	1,278
Materials and Supplies	11,612	12,737
Contractual Services	10,254	5,357
Rents	3,047	3,048
Transportation Expense	7,226	6,768
Insurance	58,723	54,581
Bad Debts Expense	502	365
Miscellaneous Expense	11,897	12,475
Total O&M Expense	<u>227,570</u>	<u>217,024</u>
Depreciation Expense	17,011	16,960
Amortization Expense	3,338	3,338
Taxes Other than Income:		
Utility Receipts Tax	2,926	2,017
Payroll Tax	8,473	8,555
Total Operating Expenses	<u>259,318</u>	<u>247,894</u>
Net Operating Income:	(21,239)	(12,077)
Other Income (Expense):		
Interest Income	10,726	10,543
Interest Expense	(21,122)	(22,012)
Total Other Income (Expense)	<u>(10,396)</u>	<u>(11,469)</u>
Net Income	<u>\$ (31,635)</u>	<u>\$ (23,546)</u>

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

Pro-forma Net Operating Income Statement

	Year Ended 4/30/2007	Adjustments	Sch Ref	<i>Pro-forma</i> Present Rates	Adjustments	Sch Ref	<i>Pro-Forma</i> Proposed Rates
Operating Revenues							
Unmetered Sales	\$ 1,190			\$ 1,190	\$ 522	1	\$ 1,712
Residential Sales	159,040			159,040	69,729	1	228,769
Commercial Sales	36,836			36,836	16,150	1	52,986
Public Fire Protection	32,208	\$ 7,370	5-1	39,578	17,352	1	56,930
Private Fire Protection	770			770	338	1	1,108
Forfeited Discounts	2,052			2,052	900	1	2,952
Miscellaneous Service Revenues	5,983			5,983			5,983
Total Operating Revenues	<u>238,079</u>	<u>7,370</u>		<u>245,449</u>	<u>104,991</u>		<u>350,440</u>
O&M Expense	227,570			255,444			255,444
Payroll Expense		9,598	6-1				
Rate Case Expense		1,000	6-2				
Insurance Expense		843	6-3				
FICA Tax		734	6-4				
Perf Expense		985	6-7				
Maintenance Expense		17,300	6-8				
Materials and Supplies		(1,910)	6-9				
Contractual Services - Other		(675)	6-9				
Depreciation Expense	17,011	4,717	6-5	21,728			21,728
Amortization Expense	3,338			3,338			3,338
Taxes Other than Income	11,399	496	6-6	11,895	1,469	1	13,364
Total Operating Expenses	<u>259,318</u>	<u>33,088</u>		<u>292,406</u>	<u>1,469</u>		<u>293,875</u>
Net Operating Income	<u>\$ (21,239)</u>	<u>\$ (25,718)</u>		<u>\$ (46,957)</u>	<u>\$ 103,522</u>		<u>\$ 56,565</u>

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

Revenue Adjustments

(1)

Hydrant Rental

To reflect hydrant revenue that is not being collected.

Hydrant Rental Rate Per Year	\$384.25
Times: Number of Hydrants	<u>103</u>
Total Revenue	<u>39,578</u>
Less: Test Year Revenue	<u>32,208</u>

Adjustment Increase (Decrease) 7,370

**Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U**

Expense Adjustments

(1)

Payroll Expense

To adjust Operating Expenses to reflect an increase in Payroll Expense for salaried personnel.

<u>Title</u>	<u>Projected Wage</u>
Works Manager	\$12,038
Bookkeeper	10,200
Billing Clerk	7,870
Utility Clerk	7,909
Certified Operator I	34,224
Clerk Treasurer	8,000
Town Council	2,040
Town Attorney	864
Certified Operator II	30,965
	<hr/> 114,110
Less: Test Year	104,512
	<hr/> \$ 9,598

Adjustment Increase (Decrease)

(2)

Rate Case Expense

To adjust Operating Expenses to reflect the cost of this rate case.

Estimated Rate Case Costs	\$5,000
Amortize over 5 years	5
	<hr/> \$1,000

Adjustment Increase (Decrease)

(3)

Insurance Expense

To adjust Operating Expenses to reflect the current cost of insurance.

<u>Insurance Type</u>	<u>Current Cost</u>
Workman's Compensation	\$2,643
Liability	15,581
Property	7,958
Other (Employee Benefits)	33,384
	<hr/> 59,566
Less: Test Year	58,723
	<hr/> \$843

Adjustment Increase (Decrease)

(4)

FICA Tax

To adjust operating expenses to reflect the *pro-forma* level of FICA Tax.

<i>Pro-forma</i> taxable salaries and wages	\$114,110
Times: Tax rate	7.65%
<i>Pro-forma</i> FICA Tax	8,729
Less: Test year Expense	7,995
Adjustment Increase (Decrease)	<u>\$734</u>

(5)

Depreciation Expense

To adjust Operating Expenses to reflect *pro-forma* Depreciation Expense.

Utility plan in service at the end of the test year	\$1,142,475
Less: Land	(273,364)
Depreciable plant	869,111
Times: Approved Rate	2.50%
<i>Pro-forma</i> depreciation expense	21,728
Less: Test year expense	(17,011)
Adjustment Increase (Decrease)	<u>\$4,717</u>

(6)

Utility Receipts Tax

To adjust operating expenses to reflect the *pro-forma* level of Utility Receipts Tax at present rates.

<i>Pro-forma</i> operating revenues at present rates	\$238,079
Less: Exemption	(1,000)
Plus additional fire protection charge revenues	7,370
<i>Pro-forma</i> taxable revenues at present rates	244,449
Times: Tax rate	1.40%
<i>Pro-forma</i> Gross Receipts tax at present rates	3,422
Less: Test year expense	(2,926)
Adjustment Increase (Decrease)	<u>\$496</u>

(7)

PERF Expense

To adjust operating expenses to reflect the *pro-forma* level of PERF Expense.

Pro-forma salaries and wages applicable to PERF	\$103,206
Times: PERF rate	9.00%
Pro-forma PERF Expense	9,289
Less: Test year Expense	8,304
Adjustment Increase (Decrease)	<u>\$985</u>

(8)

Maintenance Expense

To adjust operating expenses to reflect an allowance for Periodic Maintenance Expenses.

Tank painting and greasing:	
Elevated tank greasing (250,000 gallon - \$4,000 every 5 years)	\$800
Elevated tank painting (250,000 gallon - \$10,000 every 10 years)	1,000
Well Pumps:	
(\$10,000 each x 3 well/pumps every 3 years)	10,000
Well Cleaning:	
(\$7,500 each x 2 wells every 10 years)	1,500
Meter/Control Valve Pitts	
Meter and control valve pits	4,000
	<u>17,300</u>
Less: Test year	0
Adjustment Increase (Decrease)	<u>\$17,300</u>

(9)

Capital Expenditures

To remove from operating expense items that should have been capitalized.

<u>Vender</u>	<u>Description</u>	<u>Expense Account Charged</u>	<u>Date Paid</u>	<u>Amount</u>
Hughs Supply	Hydrants	Materials and Supplies	6/22/2006	(1,910)
Forshey Home Improvements	Roof	Contractual Services - Other	3/30/2007	(675)
				<u>(2,585)</u>

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

Extensions and Replacements

To reflect the average amount of debt service required over a five year period.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
High Service Pump	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 20,000
Backhoe	10,000	10,000	10,000	10,000	10,000	50,000
Truck	6,000	6,000	6,000	6,000	6,000	30,000
Water mains	8,000	8,000	8,000	8,000	8,000	40,000
Lawn Mower	2,000	2,000	2,000	2,000	2,000	10,000
Meters	3,500	3,500	3,500	3,500	3,500	17,500
	<u>\$ 33,500</u>	<u>\$ 33,500</u>	<u>\$ 33,500</u>	<u>\$ 33,500</u>	<u>\$ 33,500</u>	<u>\$ 167,500</u>

Divide by 5 Years

5

Average Annual Extensions and Replacements

\$ 33,500

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

Debt Service

To reflect the average amount of debt service required over a five year period.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
3/01 refunding - \$545,000	<u>\$ 58,701</u>	<u>\$ 58,651</u>	<u>\$ 58,438</u>	<u>\$ 59,049</u>	<u>\$ 59,448</u>	<u>\$ 294,286</u>
	<u>\$ 58,701</u>	<u>\$ 58,651</u>	<u>\$ 58,438</u>	<u>\$ 59,049</u>	<u>\$ 59,448</u>	<u>\$ 294,286</u>
Divide by 5 years						<u>5</u>
Average Annual Debt Service						<u>\$ 58,857</u>

Knightstown Municipal Water Utility
CAUSE NUMBER 43440-U

Current and Proposed Rates and Charges

	<u>Current</u>	<u>Petitioner Proposed</u>	<u>OUC Proposed</u>
Metered Rates Per Month (Per 1,000 Gallons)			
First 7000 Gallons	\$3.09	\$4.57	\$4.44
Over 7000 Gallons	1.67	2.47	2.40
Minimum Rates Per Month			
5/8 - 3/4 Inch Meter	2.67	3.95	3.84
1	3.74	5.53	5.38
1 1/2	4.81	7.11	6.92
2	7.74	11.44	11.13
3	29.37	43.41	42.25
4	37.38	55.25	53.77
6	56.07	82.87	80.65
8	77.43	114.44	111.38
Fire Lines/Sprinklers Per Month			
1	10.67	15.77	15.35
1 1/2	24.02	35.50	34.55
2	42.69	63.10	61.41
3	96.06	141.98	138.18
4	170.78	252.41	245.66
6	384.25	567.92	552.72
8	683.11	1,009.64	982.61
Fire Protection Charge Per Month			
5/8	2.35	4.33	4.21
3/4	3.52	6.50	6.32
1	5.86	10.83	10.53
1 1/4	9.38	17.32	16.85
1 1/2	11.73	21.65	21.06
2	18.76	34.64	33.69
3	35.18	64.95	63.17
4	58.63	108.25	105.29
6	117.25	216.50	210.57
8	187.60	346.40	336.91
Hydrant Rental			
Private Hydrant, Per Hydrant	\$384.25	\$567.92	\$552.72